

Message Text

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ACTION TRSE-00

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FM AMEMBASSY MANILA

TO SECSTATE WASHDC 7213

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E O 11652: N/A

TAGS: AFIN, EFIN, RP, US

SUBJ: OVERPRINTING OF U.S. DOLLAR CHECKS

REF: A. MANILA 7871 B. STATE 143447

1. SUMMARY AND ACTION REQUESTED: THE CENTRAL BANK HAS PROVIDED IN WRITING ITS REASONS FOR DESIRING CONTINUATION OF THE LIPSTICKING PROCEDURE. AT THE SAME TIME, THE CB APPEARS WILLING TO MAINTAIN A PREMIUM RATE ON DOLLAR PURCHASES FROM THE RDO, IN ORDER TO BALANCE THE COSTS OF LIPSTICKING TO THE USG. THE EMBASSY RECOMMENDS CONTINUATION OF THE PROGRAM, AND REQUESTS INSTRUCTIONS ON OFFICIAL RESPONSE. EMBASSY ALSO RECOMMENDS STEPS BE TAKEN TO FIND REPLACEMENT FOR CITIBANK, WHICH NO LONGER WISHES TO HANDLE LIPSTICKED CHECKS. END SUMMARY.

2. EMBASSY FINANCIAL ECONOMIST AND ACTION REGIONAL DISBURSING OFFICER (RDO) CALLED ON ROMEO CRUZ, DIRECTOR OF FOREIGN EXCHANGE DEPARTMENT, THE CENTRAL BANK (CB), TO DISCUSS THE LIPSTICKING ARRANGEMENT, AS DIRECTED REF B. EMBASSY OFFICERS POINTED OUT THAT THIS PROGRAM ENTAILS COSTS TO THE USG AND GAVE ROUGH APPROXIMATION OF LOCAL COSTS, WHICH IT WAS NOTED WERE ONLY PART OF TOTAL COSTS INVOLVED. OFFICERS STATED THAT US AGENCIES QUESTIONED CONTINUED DESIRABILITY OF THE PROGRAM, PARTICULARLY FOLLOWING PLANS BY CB TO DISCONTINUE PREFERENTIAL EXCHANGE RATE ON PURCHASE OF DOLLARS FROM RDO.

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3. CRUZ RESPONDED WITHOUT HESITATION THAT THE GOP FINDS

LIPSTICKING VALUABLE AND DESIRES CONTINUATION OF THE PROGRAM. HE STATED THAT THERE IS A BLACK MARKET DEMAND FOR U.S. DOLLAR INSTRUMENTS, AND CITED A RECENT CASE IN WHICH AN OUTGOING PASSENGER AT MANILA INTERNATIONAL AIRPORT WAS FOUND IN POSSESSION OF A LARGE AMOUNT IN DOLLAR INSTRUMENTS. CRUZ CLAIMED THAT MORE THAN HALF OF THE AMOUNT WAS IN UNLIPSTICKED U.S. TREASURY CHECKS.

4. CRUZ LATER RESPONDED TO OUR REQUEST TO PUT HIS POSITION IN WRITING. THE BODY OF HIS LETTER, DATED JULY 1, 1976 IS QUOTES AS FOLLOWS: "THIS REFERS TO YOUR LETTER OF JUNE 28, 1976 REQUESTING OUR COMMENTS ON WHETHER THE GOVERNMENT OF THE PHILIPPINES DESIRES TO CONTINUE THE OVERPRINTING PROGRAM OF U.S. TREASURY DOLLAR CHECKS AND THE REASONS WHY SUCH CONTINUED PROGRAM IS CONSIDERED DESIRABLE.

"PLEASE BE INFORMED THAT IT IS OUR DESIRE THAT THE OVERPRINTING PROGRAM OF U.S. TREASURY DOLLAR CHECKS BE CONTINUED IN ORDER TO INSURE THE SALE/SURRENDER OF ALL FOREIGN EXCHANGE RECEIPTS ARISING FROM U.S. TREASURY DOLLAR CHECKS TO THE LOCAL BANKING SYSTEM. MANY US TREASURY DOLLAR CHECKS THAT BORE NO OVERPRINTING HAVE IN THE PAST FOUND THEIR WAY INTO THE SO-CALLED "BLACKMARKET". AS A MATTER OF FACT, ACCORDING TO TODAY'S NEWSPAPERS, FOREIGN EXCHANGE AMOUNTING TO OVER ONE MILLION U.S. DOLLARS SEIZED FROM AN OUTGOING PASSENGER AT THE MANILA INTERNATIONAL AIRPORT BY AGENTS OF THE NATIONAL BUREAU OF INVESTIGATION INCLUDED U.S. TREASURY WARRANTS AND VARIOUS OTHER CHECKS WORTH MORE THAN US \$5000,000.00. "WE WISH TO ASSURE YOU THAT THIS BANK DEEPLY APPRECIATES YOUR INVALUABLE COOPERATION IN ADOPTING, SINCE THE EARLY FIFTIES, THE OVERPRINTING PROGRAM WHICH HAS PROVEN ITSELF TO BE OF THE UTMOST BENEFIT TO THE ECONOMY OF THIS COUNTRY."

5. DURING OUR MEETING, CRUZ WAS INTERESTED IN OUR DISCUSSION OF THE COSTS OF LIPSTICKING TO THE USG, AND HE READILY DREW A CONNECTION BETWEEN THOSE COSTS AND THE COSTS TO THE GOP OF SELLING PESOS AT A PREMIUM RATE. HE CLEARLY INDICATED THAT THE CB WOULD BE WILLING TO MAINTAIN A PREMIUM RATE IN EXCHANGE FOR CONTINUATION OF LIPSTICKING. IT WAS ALSO CLEAR FROM THE CONVERSATION THAT THIS WOULD BE THE LIMITED OFFICIAL USE

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ONLY REASON FOR MAINTAINING A PREMIUM RATE, SINCE THE CB NO LONGER FEELS A NEED TO OBTAIN DOLLARS FROM THE RDO. EMBASSY OFFICERS STATED THAT THERE IS NO DIRECT RECIPROCITY BETWEEN THE TWO PROGRAMS, BUT THAT HIS DESIRE TO BALANCE COSTS OF PROGRAM WAS HELPFUL, AND MATTER WOULD BE SUBMITTED TO WASHINGTON FOR DECISION. (FYI: WE HAVE SUGGESTED THAT A PREMIUM RATE OF 0.5 CENTAVOS PER DOLLAR WOULD BE AN APPROPRIATE PREMIUM. HOWEVER, AN APPROACH WHICH REGARDED

THE PREMIUM AS A BALANCE TO THE COSTS OF LIPSTICKING WOULD, BY OUR RECKONING, FIND THE APPROPRIATE RATE TO BE CLOSE TO THE 0.0125 CENTAVO AGREED UPON AT THE OUTSET OF THE CB DOLLAR ACQUISITION PROGRAM. END FYI.)

6. IN VIEW OF THE CB.S EXPRESSION OF A DESIRE TO CONTINUE THE PROGRAM, AND CRUZ'S WILLINGNESS TO CONTINUE PURCHASING DOLLARS AT A PREMIUM, THE EMBASSY RECOMMENDS THAT LIPSTICKING BE CONTINUED.

7. IF THE PROGRAM IS TO BE CONTINUED, WE SHOULD APPROACH THE QUESTION OF FINDING A BANK TO HANDLE THE CHECKS. THE MANAGER OF THE CITIBANK MANILA BRANCH, DAN JACOBSEN, HAS AGAIN EXPRESSED THE DESIRE OF HIS BANK TO DROP THE PROGRAM. HE STILL CONSIDERS IT UNLIKELY THAT BANK OF AMERICAN WOULD WISH TO TAKE IT OVER, BUT THE EMBASSY IS PREPARED TO EXPLORE THE MATTER WITH LOCAL B OF A REPRESENTATIVES IF IT IS CONSIDERED DESIRABLE. AS PREVIOUSLY NOTED IN REF A, JACOBSEN THINKS THAT PHILIPPINE NATIONAL BANK (PNB) WOULD BE AN APPROPRIATE INSTITUTION TO HANDLE THE CHECKS. HE ACKNOWLEDGES THAT FRAUDULENTLY NEGOTIATED CHECKS ARE A PROBLEM, BUT POINTED OUT THAT THE CB WOULD HAVE AN INTEREST IN SMOOTH OPERATION OF THE PROGRAM, AND WOULD HAVE SOME LEVERAGE OVER PNB, TO ENCOURAGE TIMELY RECLAMATION.

8. REQUEST INSTRUCTIONS ON OFFICIAL RESPONSE TO CENTRAL BANK ON THE OVERPRINTING PROGRAM, AND ON STEPS TO BE TAKEN TO FIND A REPLACEMENT FOR CITIBANK.
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